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SUBJECT: Public-Private Partnerships in Transportation - July 16-18
Joint USG/GOF Conference in Lyon

Summary

1. (U) On July 6-8, Federal Transit Deputy Administrator Sherry E. Little led a delegation of Federal Transit Administration (FTA) officials, Congressional Representatives, and private sector participants to a conference in Lyon that FTA co-sponsored with the GOF on public-private partnerships (PPP) in the development of transportation networks. Representative John Mica (R-FL), Ranking Minority Member of the House Transportation and Infrastructure Committee, noted that he sponsored legislation providing for the development and financing of a high speed rail link between New York and Washington. He supported a five-year transportation plan that would set priorities and designate projects for the nation's transportation needs covering road, rail, the ports, and air. According to various French presenters, the GOF set guidelines for how PPPs should work and cataloged the needs for their municipal or regional transportation systems. The private sector designed, built, and operated concessions, based on government specifications for a set length of time. FTA announced that it will cosponsor a follow-up conference in San Diego in October with the GOF. FTA Deputy Administrator Little is also organizing four PPP conferences this autumn throughout the U.S. to discuss new ways of incorporating private sector involvement. End summary.

Background

2. (U) The Federal Transit Administration (FTA) is a 500-member agency that administers and oversees the USD 9 billion federal assistance program to the nation's public transportation operators. This sum includes FTA's USD 1.4 billion New Starts program, which aims to ensure the greatest return on investment in major capital transit projects.

Public Transportation Usage Up; Federal Funding Down

3. (U) On July 6-8, FTA Deputy Administrator Sherry E. Little led a delegation of FTA officials, Congressional Representatives, and private sector participants to a conference in Lyon that FTA co-sponsored with the GOF on public-private partnerships (PPP) in the development of transportation networks. Little opened the conference, noting that high gas prices have decreased demand for petroleum as consumers have shifted to more gas efficient vehicles, such as hybrid automobiles. High petroleum prices have pushed public transport usage to an all time high, as many opted to stop driving. At a time when FTA needed to fund the expansion of public transport projects to cope with increased demand, federal funding for municipal and regional transportation systems has come under pressure. The FTA derived 80 percent of its funding from gas taxes. As the demand for gas has gone down, so has FTA's resources. Little estimated that the UFTA would need USD 22 billion/year to

maintain and improve transportation through 2040, a 40 percent increase over 2004 spending levels. In addition, the cost of multi-modal transportation systems would climb because of the rise in commodities prices.

¶4. (U) Little noted that she drafted the PPP test law while she was Senior Professional Staff Member on the Senate Committee on Banking, Housing, and Urban Affairs. Since then, Texas, Colorado, and California have shown that PPP projects were built faster, were more efficient, and were more consumer-oriented than traditional public sector built and managed projects. To increase awareness of and interest in the PPP model, the FTA planned to hold four workshops this autumn in Denver, San Francisco, Philadelphia, and Dallas. In October, the FTA would also co-host with the GOF a follow-on PPP workshop in San Diego.

Congressional Call for Transportation Plan

¶5. (U) Representative John Mica (R-FL), Ranking Minority Member of the House Transportation and Infrastructure Committee noted that he sponsored legislation (H.R. 6003, the Passenger Rail Investment and Improvement Act of 2008 passed on June 11, 2008) that instructed the DOT to solicit bids for the development and financing of a high speed rail link between New York and Washington. He supported a five-year transportation plan that would set priorities and designate projects for the nation's transportation needs covering road, rail, the ports, and air. The plan would define the role of the federal government, the states, and business. A key issue was finding innovative financial solutions to improve and maintain transportation infrastructure, which would necessitate a transitional and flexible tax system on fuel that would consider

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factors such as environmental issues. He expressed support for innovative solutions such as leasing portions of the interstate highway system to the private sector to ensure upkeep.

¶6. (U) Representative Loretta Sanchez (D-CA), Chairwoman of the Subcommittee on Border, Maritime and Global Counterterrorism, noted that, if the private sector played a larger role in the development of transportation systems, it would need to protect against terrorist attacks or it "would feel the weight of regulation."

Transportation in the Rhone-Alpes Region Improved

¶7. (U) Rhone Alpes Regional Council First Vice President for Transportation Bernard Soulage said that private participation in transportation projects guaranteed that market considerations would reign. The Rhone-Alpes Region spent 25 percent of its budget on transportation. It recently developed a smart card that could be used on all of the province's regional transportation, including bicycle rental. It made train schedules more consistent with demand, which affected SNCF schedules throughout Western France, since Rhone-Alpes was a main transportation hub. The Region was also developing a regional transportation authority to coordinate all transportation issues. The Region's big project is a tunnel under the Alps linking Grenoble with Turin. The cost of this tunnel will exceed that of the Chunnel and is a project appropriate for private equity participation.

¶8. (U) Lyon Greater Lyon Transit Authority (SYSTRAL) President Bernard Rivalta noted that SYSTRAL was a public sector company that provided public transport for the 57 towns comprising Greater Lyon and seven adjoining towns, covering 1.3 million inhabitants and 613 square kilometers. SYSTRAL's Board comprised 10 members of the Rhone Department General Council and 16 members of the Greater Lyon Council. SYSTRAL's role was to define and implement urban transportation policy, finance network operations, maintain, design, finance, and build network extensions, delegate network operations to the private sector, control the quality of service, decide on routes, schedules, and fares, monitor traffic flow, and maintain rolling stock, buildings, tracks, and tunnels. Systral selected Keolis Lyon to operate its transportation network following competitive bidding for the period 2005-2010. Lyon's transportation

system is intermodal, comprising underground metros, cable cars, tramways, trolleybuses, and busses. Electricity powers 73 percent of the network.

Transportation Project Planning, Development and Implementation

¶9. (U) University of California at Berkeley Urban and Regional Development Institute Director David Dowall said that PPPs had an advantage of obtaining new funding sources, utilizing global expertise, and exposing projects to market discipline. Potential funding sources included mutual funds, pension funds, strategic equity investors, insurance companies, and vendor financing. Key issues were estimating demand of projects correctly and taking care of right of way and other legal issues.

¶10. (U) Veolia Transportation Business Development North America Senior Vice President Ronald Hartmann said that annual expenditures in the United States on public transportation totaled USD 15 billion, and 10 percent was under contract to private operators.

¶11. (U) Alstom Concession Director Didier Traube said that PPPs benefited the public sector because they transferred risk to the private sector, provided better budgetary control, and resulted in on-time delivery. The government's role was to draft transportation regulations, set guidelines for how PPPs should work, secure rights of way, and catalogue the needs for their municipal or regional transportation systems. The private sector could then play a comprehensive role, designing, financing, building, and operating concessions built to government specifications for a set length of time.

¶12. (U) Acumen Ltd. Director Simon Murray noted that PPPs in the United Kingdom have had mixed success. The UK has had difficulty forecasting capital costs, and many PPP transportation projects have required ongoing subsidies. Successful PPP transportation projects have strong leadership and community support, interface with other infrastructure, use proven engineering systems, and include a robust business plan with accurate capital costs. The CEOs of the San Francisco and Charlotte provided background on their PPP experience involving their metro systems. Aside from the networks themselves, these cities have used PPP models to finance the development of shopping malls, museums and other developmental projects around the

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metro stations.

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